

**Bill Number: AB 597 (Eng) as amended July 12, 2011**

**SUMMARY**

AB 597 (Eng) establishes the California Financial Literacy Fund and authorizes the Controller to administer the fund and program. The purpose of the fund is to enable partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californian's financial literacy. The measure authorizes the Controller to accept private donations and deposit into the fund. Such funds would be made available upon appropriation in the annual Budget Act and would require donations to be returned to contributors if not appropriated within 18 months.

**BOARD POSITION**

**SUPPORT.** This bill is consistent with the board's goal to help members plan financially for retirement and accumulate retirement assets.

**SUMMARY OF AMENDMENTS**

The Amendment of July 12, 2011:

- Adds legislative findings and declarations that contributions to the California Financial Literacy Fund are made for a public purpose and should be eligible to be claimed as deductible charitable contributions to the extent otherwise allowable under federal and state income tax law.

**PURPOSE OF THE BILL**

This bill addresses the concern that financial illiteracy, especially among young people, is a growing problem in California.

**ANALYSIS:**

**Existing Law:**

California does not currently have an official statewide policy or educational plan for improving financial literacy. In addition, there is no centralized system that collects and administers financial literacy funds or implements financial literacy programs.

**This bill:**

AB 597 establishes the California Financial Literacy Fund in the State Treasury and authorizes the Controller to administer the fund and program. The purpose of the fund is to enable partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californian's financial literacy.

AB 597 would allow the Controller to accept private donations and deposit those donations into the fund, which shall be made available upon appropriation in the annual Budget Act. Funds not appropriated within 18 months of being contributed to the fund

shall be returned in full to the contributor. The bill also prohibits the use of donations to promote or market the financial products of any contributor.

AB 597 also authorizes the Controller to convene a Financial Literacy Advisory Committee to provide additional oversight of the fund and develop strategies to improve financial literacy. Although the bill fails to provide any detail regarding the size of the committee, its membership and when it will meet, the advisory committee must be compliant with the provisions of the Bagley-Keene Open Meeting Act whenever convened.

Beginning in 2013, the bill requires the Controller to provide a brief annual summary on the use of the funds, when appropriated to the chairpersons of the Assembly Committee on Banking and Finance and the Senate Committee on Banking, Finance and Insurance. This summary would be submitted no later than August 30 of each year.

Lastly, this bill states the intent of the Legislature that contributions to the California Financial Literacy Fund are made for a public purpose and should be eligible to be claimed as deductible charitable contributions to the extent otherwise allowable under federal and state income tax law.

AB 597 has no direct impact to CalSTRS. However, while there does not appear to be any legal conflicts with the Controller accepting private donations to deposit into the California Financial Literacy Fund established by this measure, the Controller, as a board member, could vote in support of an investment firm that may have previously donated to the Financial Literacy Fund. Presumably, the Controller would recuse himself under such a circumstance.

This bill is consistent with the strategic benefit plan adopted by the board, which includes efforts to improve financial literacy among CalSTRS members.

## LEGISLATIVE HISTORY

HR 300—Carson (2011, pending before House Subcommittee on Financial Institutions and Consumer Credit) establishes a grant program in the Department of the Treasury to fund the establishment of centers of excellence to support research, development and planning, implementation, and evaluation of effective programs in financial literacy education for young adults and families ages 15-24 years old.

HR 626—Cleaver (2011, pending before House Subcommittee on Early Childhood, Elementary, and Secondary Education) would enact the Financial Literacy for Youth Act of 2011 requiring the Secretary of Education to establish a pilot program to award grants to State and local educational agencies to develop financial literacy programs in elementary and secondary schools.

S. Res 121—Akaka (2011, adopted by the Senate on March 31, 2011) which proclaims April 2011, as Financial Literacy Month.

SB 696—Lieu (2011, referred to Senate Banking & Financial Institutions Committee) would establish the California Financial Literacy Initiative in the Controller's office for the purpose of providing resources and instruction to Californians to improve financial

literacy. The bill would authorize the Controller to deposit private donations into the fund from entities with no direct financial interest in any financial products. The bill would require those moneys to be made available upon appropriation in the annual Budget Act.

SR 485—Akaka (2010, Adopted unanimously by Senate) designated April 2010 as “Financial Literacy Month” to raise public awareness about the importance of personal financial education in the U.S.; and the serious consequences that may result from a lack of understanding about personal finances. Resolution also called on the Federal Government, States, localities, schools, nonprofit organizations, businesses, and the people of the United States to observe the month with appropriate programs and activities.

AB 2457—Salas (2010, Vetoed) would have established the California Financial Literacy Fund in the State Treasury and authorized the Controller to administer the fund. The purpose of the fund is to support partnerships with the financial services community and governmental and nongovernmental stakeholders to improve California’s financial literacy.

ACR 147—Lieu (2010, died on the Senate Floor) would have declared April 2010 as Financial Aid and Literacy Month to raise public awareness about the need for increased financial literacy; encouraged public and private organizations and institutions to provide opportunities for financial literacy education for all Californians and to collaborate with members of the California Society of Certified Public Accountants, the California Jump Start Coalition, and others as they provide outreach and education.

HR 767—Johnson (2009, held in the House Subcommittee on Finance and Tax) would have enacted the National Financial Literacy Act of 2009 and provided incentives to encourage financial institutions and small businesses to provide continuing financial education to customers, borrowers, and employees.

AB 448—Torres (2009, held in the Assembly Appropriations Committee) would have required the Department of Consumer Affairs (DCA) to create and improve financial literacy programs. Specifically, it required DCA to utilize existing resources and participate with the Financial Literacy and Education Commission established by the federal Financial Literacy and Education Improvement Act.

AB 550—Lieu (2009, held in Assembly Appropriations Committee) would have established the California Financial Literacy Initiative for the purpose of providing financial resources and instruction to Californians to improve financial literacy. Enabled the Controller's office to administer the initiative. Established the California Financial Literacy Fund in the State Treasury. Authorized the Controller to deposit private donations into the fund from entities with no direct financial interest in any financial products.

AB 2123—Lieu (2008, Vetoed) would have established the California Financial Literacy Initiative, administered by the State Controller and authorized the Controller to convene a Financial Literacy Advisory Committee, as specified. Required the Controller to establish and oversee a California Financial Services Corps, subject to the availability of

resources for that purpose, and required the Controller to make annual reports to the Legislature, as specified.

AB 1950—Lieu (2006, Vetoed) would have authorized a school district in providing instruction in economics, to include instruction related to the understanding of personal finances, specifically including budgeting, savings, credit, and identity theft. Encouraged the Department of Education to develop a model personal finances curriculum for adoption by school districts.

## **PROGRAM BACKGROUND**

Financial illiteracy, especially among young people, is a growing problem in California. While financial literacy materials and resources exist in many forms, they are not organized or collected in a systematic manner and California does not have an official statewide policy or educational plan for improving financial literacy.

In November 2009 the Board adopted the CalSTRS Strategic Benefit Plan 2010-2015, a comprehensive strategy of benefits and services to be provided to CalSTRS members to achieve the Board's goals. The strategy includes eleven plan design options to address the overall retirement security of CalSTRS members. One of the options is to expand current efforts to increase member financial literacy in an effort to help members accumulate retirement assets. Though CalSTRS already provides financial education to members, the Strategic Benefit Plan identified additional efforts that could be taken in order to improve members' understanding of their financial needs in retirement such as developing additional workshops, Internet tools and Web-based seminars.

## **OTHER STATES' INFORMATION**

The Council of Economic Education conducted a 2009 survey of the States and found that 44 states currently have K-12 personal finance education or guidelines in place. Due to differing criteria, the JumpStart Coalition (a not-for-profit, volunteer-driven group with hundreds of organizations representing businesses, government agencies, non-profits and education across the states) only considers 24 states to have a component of personal financial education required. Results from the Survey of Personal Financial Literacy indicated low levels of financial literacy among American youth.

In 2009, Delaware enacted a law requiring businesses making short-term consumer loans, such as title loans and payday loans, etc., to pay an annual high-cost license fee to fund grants with schools and other organizations that provide financial literacy skills to adults and youth. In 2008, Ohio established the financial literacy education fund in the state treasury, administered by the Director of Commerce. The fund is used to support various adult financial literacy education programs developed or implemented by the Director of Commerce. Vermont legislators authorized the establishment of a trust fund to finance financial literacy. The Treasurer's office is authorized to accept funding from a variety of sources to support these activities.

### Federal Action:

Congress introduced three bills in 2011 relating to financial literacy. HR 300—Carson would enact the Young Adults Financial Literacy Act creating federal grant programs

intended to increase financial literacy among teens and young adults; and HR 626—Clever requiring the Secretary of Education to establish a pilot program to award grants to state and local educational agencies to develop financial literacy programs in K-12 schools. Both measures are pending in House subcommittees. The Senate passed S.Res 121—Akaka back in March which proclaimed “April 2011 as Financial Literacy Month”.

President Obama earlier named the month of April, National Financial Literacy Month calling upon Americans to commit “to teaching ourselves and our children about the basics of financial literacy.” The Federal government also established the Fair and Accurate Credit Transactions (FACT) Act in 2003 to improve financial literacy and education under Title V, the Financial Literacy and Education Improvement Act.

## **FISCAL IMPACT**

Program Cost – None.

Administrative Costs/Savings – None.

## **SUPPORT**

California State Controller John Chiang (co-sponsor)  
New America Foundation (co-sponsor)  
American Federation of State, County & Municipal Employees, AFL-CIO  
California Bankers Association  
California Chamber of Commerce  
California Coalition for Rural Housing  
California Credit Union League  
California Library Association  
California School Boards Association  
CalSTRS  
Consumer Federation of California  
VISA

## **OPPOSITION**

California Alliance for Consumer Protection  
[www.TheCaliforniaIndex.org](http://www.TheCaliforniaIndex.org)

## **ARGUMENTS**

### **Pro:**

- Promotes financial literacy, which is consistent with the strategic benefits plan adopted by the Board.

### **Con:**

- With resources dwindling at all levels of government, can't this be done in the private sector?

**LEGISLATIVE STAFF CONTACT**

Mike Mello  
Legislative Analyst,  
CalSTRS Legislative Affairs,  
(916) 414-1983  
mmello@calstrs.com

Mary Anne Ashley  
Assistant Director,  
CalSTRS Governmental Affairs and Program Analysis,  
(916) 414-1981  
mashley@calstrs.com

Berman Obaldia  
Director,  
CalSTRS Governmental Affairs and Program Analysis,  
(916) 414-1977  
bobaldia@calstrs.com

Christine J. Lally  
Deputy Secretary, Legislative Affairs,  
State & Consumer Services Agency,  
(916) 653-2656  
christine.lally@scsa.ca.gov